

Item 3600-001-0001 Department of Fish and Game

3. *Interim Progress Report on Tasks Associated With Corrective Action Plan.*

The department shall make progress reports for each task associated with its corrective plan available quarterly through January 2008 for legislative review upon request. These tasks include: (1) Review Management Tools for Monitoring Budget Allotments and Activities; (2) Review of Methodology Used to Project Revenues; and (3) Department Program Budget Structure Development; (3A) Department Project Codes Review, (3B) Program Activity Review, (3C) Cal STARS Index and PCA Review, (3D) Index/PCA Budget Allotments and Program Activities Review, (3E) Index and Program Alignment Review.

DEPARTMENT RESPONSE:

<p>FY 2006-07 -- Progress Report on Corrective Action Plan by CPS, Human Resource Services</p>

BACKGROUND

In response to the Phase 1 review of the Department of Fish & Game's (Department) accounting system performed by CPS, the Department has implemented a Phase 2 review with CPS that focuses on implementing Phase 1 recommendations and addressing specific Legislative Analyst's Office (LAO) reporting requirements defined in the Supplemental Report of the 2006 Budget Act. These Department-identified Phase 2 tasks include:

1. Review management tools for monitoring budget allotments and activities
2. Review the methodology used to project revenues, and
3. Department program budget structure development, including:
 - A. Department project codes review
 - B. Program activity review
 - C. CalSTARS index and PCA review
 - D. Index/PCA budget allotments and program activities review
 - E. Index and program alignment review

This project status report for Phase 2 of the Department's Fiscal Systems Review covers tasks performed on the 2006 Corrective Action Plan through October 2006.

The Phase 2 project contract was executed on September 20, 2006; however, Department efforts to implement corrective actions have been ongoing since January 2006. The project has a completion date of December 31, 2007 with the delivery of a final report. The project is on time and on budget.

Phase 1 Corrective Action Plan Task Status through October 2006

The following describes Department actions taken and verified by CPS through October 31, 2006 to address specific Phase 1 review recommendations and LAO supplemental report task #1 (review management tools for monitoring budget allotments and activities). CPS planned action and evaluation tasks are also described.

1. Evaluation of Pilot Automated Timesheet Submission.

The Department Accounting and Information Technology Branch conducted a pilot project to determine the feasibility of submitting automated employee timesheets. The pilot project indicated that timesheet automation would be feasible if the employee's social security number can be protected and an electronic employee/supervisor signature is possible. However, timesheet automation is not feasible with the Department's current information technology application.

CPS Planned Action & Evaluation

No change during October. CPS needs to discuss this further with the Department.

2. Bring supervisors and managers into compliance with "Employee and Supervisor Time" Reporting Guidelines.

A Departmental Bulletin #2006-04 was issued May 16, 2006 to all employees that cited employees and supervisors responsibilities relative to preparing and approving accurate and timely timesheets. The bulletin included time reporting guidelines.

CPS Planned Action & Evaluation

In October, the CPS evaluation of the Bulletin indicates that it adequately describes the timesheet preparation and approval responsibilities of employees and supervisors. The Bulletin was distributed to all Department employees. The internal Audit Branch will test compliance with the Bulletin guidelines (see item #5).

3. Develop a monthly reporting system for evaluation of labor distribution reports.

Department Administration has developed a monthly report which will alert managers to the time charged to various PCAs and activities by their employees. These reports are intended to be used by managers as an auditing tool to ensure employees properly account for their time. Pilot reports are expected to be run during the October – December, 2006 time period.

CPS Planned Action & Evaluation

The pilot implementation date has been delayed until January 1, 2007, due to the need to update the Employee Master File.

4. Assure accuracy of documentation of labor cost charged to Federal Assistance Grants.

The Department Director issued Bulletin #2006/03 in July 2006 to Department federal project leaders which states that State and in-kind matching sources and amounts must be clearly identified and documented to draw federal grant funds. This bulletin included a Federal Grant Summary that detailed the various items that must be collected to support federal grants. The Department created and filled the new position of Federal Grant Manager and held regional training meetings co-sponsored with the Federal Wildlife Service.

CPS Planned Action & Evaluation

In October, CPS discussed the Bulletin #2006/03 procedures with the new manager of Federal Grants. He indicated that the procedures are considered interim and need to be clarified for field use. Over the next 60 days, the Department will develop the permanent procedures. His organization will provide training to field staff and monitor the use of the new procedures.

Since the new procedures will not cover reimbursement for federal contracts and cooperative agreements, CPS wants to know how the Department intends to handle these matters. The payment vehicles appear to contain many of the same documenting and compliance problems as federal grants. Apparently these contracts and agreements do not flow through the new office of the Federal Grant manager. The Department should analyze these areas and develop adequate procedures for departmental use.

CPS will determine whether federal project leaders took specific action as a result of these new procedures by examining a sample of transactions.

5. Conduct internal control audits in accordance with FISMA.

The internal Audit Branch (IAB) plans to conduct the next cycle of internal control audits on December 31, 2007. Time reporting practices will be included in this audit.

CPS Planned Action & Evaluation

No change during October. CPS will review the internal Audit Branch schedule of audits and discuss with the internal Audit Branch Manager.

6. Require Accounting Management to review and approve all adjusting entries prior to entry into CALSTARS and determine if there is an impact to current cash balance in the Fish and Game Preservation Fund.

The Accounting Services Branch (ASB) has issued procedures for making adjustments to accounting records. These instructions describe the approvals needed to implement adjustments.

CPS Planned Action & Evaluation

In October 2006, CPS reviewed the new written procedures and they appear adequate to guide and provide support for adjusting entries to the accounting records. Object class 591, "Special Adjustments," to CalSTARS require approval of the ASB Branch Chief and Assistant Deputy Director, Fiscal Administration.

In our opinion, these procedures need to be dated and staff advised where the instructions are located. The IAB intends to review the use of these procedures in its next audit. CPS will review the results of the IAB audit.

7. Review and develop process improvements and efficiencies regarding accounting special adjustments.

This project is included in the Phase 2 review. The Department plans to use a retired annuitant to work on this project.

CPS Planned Action & Evaluation

No change during October. CPS will follow-up on the status of this project.

8. The Internal Audit Office will verify that adjusting entries are proper, documented and approved in its Financial Integrity and State Managers' Accountability Act (FISMA) financial statement audit.

This audit will be conducted during 2006-07.

CPS Planned Action & Evaluation

No change during October. CPS will follow-up on the IAB audit results.

9. Quantify any immediate impacts to FGPF cash balance.

Nothing to report.

CPS Planned Action & Evaluation

The Department assessed the impact to the FGPF as a part of determining a repayment plan of OSPR funds. **As of October 2006, no further action is required.**

10. Develop a plan to complete payment to OSPR.

Department has developed a repayment plan that OSPR approved. Department has also developed a process to establish the manner in which PFAs are handled and financed through OSPR funds. PFAs utilizing OSPR funds require approval by the Department Assistant Deputy Director, Fiscal and OSPR Administrator.

CPS Planned Action & Evaluation

No change in October. CPS will review the repayment plan and PFA process and discuss with OSPR representatives.

11. Develop a plan to repay other borrowed funds.

We understand the General Fund enacted budget contains a General Fund transfer to balance accounts effective July 1, 2006. Department Accounting will provide a copy of the Budget Act.

CPS Planned Action & Evaluation

No change in October. CPS will review the 2006-07 Budget Act and discuss with appropriate Department staff.

12. Develop a policy and process for PFA usage requiring Assistant Deputy Director review and approval.

In July 2006, Department developed updated desk procedures to handle PFAs.

CPS Planned Action & Evaluation

In October, CPS reviewed the updated desk procedures issued by ASB. The procedures appear to adequately describe the processes, approvals required and support needed for PFAs. These procedures include special procedures for OSPR, Bond and Federal funds. The procedures should indicate where they are located so that staff can readily access them.

The Internal Audit Office (IAB) intends to review the use of these procedures in its next audit. CPS will review the IAB audit.

13. Update Indirect Cost Rates.

Department Administration has updated and provided CPS with indirect cost rates and changes for both FY 2005-06 and FY 2006-07.

CPS Planned Action & Evaluation

No change in October. CPS will review the final indirect cost allocations for FY 2005-06 and assess the reasonableness of the result.

14. Setup and utilize a uniform process for collecting Department matching cost for federal reimbursements.

The Director's Bulletin 2006/03 was issued July 18, 2006.

CPS Planned Action & Evaluation

See Item #4 for a description of the new process.

CPS will evaluate the procedure by reviewing a sample transaction for compliance with the procedure.

15. Create process for reporting Oil Spill Prevention and Response (OSPR) revenues.

Department IT is working on an automated method to provide OSPR with timely revenue information.

CPS Planned Action

No change in October. CPS will follow-up on the status of this project and discuss with OSPR representatives.

16. Provide OSPR with detailed information regarding composition and method of allocating distributed Administration to OSPR funds.

Department Accounting indicated that OSPR representatives have received this information.

CPS Planned Action & Evaluation

No change in October. CPS will discuss this issue with OSPR representatives.

17. Provide OSPR with copies of communications from control agencies relative to Prorata and SMIF rates and computations.

Department Accounting indicated that OSPR has been provided with this information.

CPS Planned Action & Evaluation

No change in October. CPS will discuss this issue with OSPR representatives.

18. Determine the procedure for including OSPR in the determination of the method used to allocate SMIF interest to Fund 0207 sub account.

Department Accounting is in the process of working this issue through with OSPR.

CPS Planned Action & Evaluation

No change in October. CPS will follow-up with Department Accounting and discuss with OSPR representatives.

19. Establish formal OSPR approval procedures relative to making PFA requests to the State Controller.

Department developed formal approval procedures.

CPS Planned Action & Evaluation

See Item #12 for a description of the new procedures.

CPS will review and discuss the procedures with OSPR representatives.

Department actions taken to address specific Phase 1 review recommendations and Supplemental Report task (2) Review of Methodology Used to Project Revenues, (Phase 2 review) include:

20. Review the revenue projection methodology.

The Department Administration indicated that some changes have been implemented and the department is expecting assistance from CPS on this matter.

CPS Planned Action & Evaluation

In October, CPS provided the Department with separate reports on revenue projection methodologies for selected dedicated funds and non-dedicated revenues. Attachment A summarizes the scope and methodology of the funds and revenues reviewed and our findings and recommendations. **As of October 2006, this task is complete with no further action required.**

21. Posting of timely revenues.

Department is currently conducting a pilot project with an Automated License Data System (ALDS), a point-of-sale system that electronically transfers funds from the retailer to the department. The system is currently being tested for fishing and hunting licenses and should improve revenue posting timeliness. In addition, Department is reviewing the current monthly revenue identification and posting system. The current process for posting revenues does not provide complete revenue information until up to 60 days after month-end. Department does not intend to make any changes to the current system prior to implementing the ALDS process statewide. The ALDS implementation will include deployment of 1,600 terminals to vendors. Vendors will be able to print licenses on generic stock via a thermal printer. Funds will be transferred from the vendors electronically. All information entered by the vendor will be available at Department in real-time. Neither Department nor the vendors will be required to maintain inventories. The database will have query capability allowing Department to access and print information in varying formats. In addition, the system will allow Department to sell licenses via the internet and telephone. The contractor developing the system for Department has installed similar systems in 15 other states. The goal for full implementation is December 31, 2007.

CPS Planned Action & Evaluation

CPS staff met with Department Revenue officials in October 2006 to discuss the current revenue posting process and the ALDS process. We noted that ASB has assigned one of its busiest staff as liaison and that the Budget function has not yet assigned a liaison for this project. The interface with these two departments is critical and CPS will continue to follow-up with ASB, Budget and Revenue staff.

Department actions taken to address specific Phase 1 review recommendations and LAO Supplemental Report task (3) *Department Program Budget Structure Development*, (Phase 2) include:

22. Review funding assignments of PCAs for appropriateness (#3c & 3d).

Department has included this review as a part of Phase 2. The Fiscal System Review (FSR) Team is responsible for reviewing PCA funding assignments.

CPS Planned Action & Evaluation

In October, CPS participated in two meetings concerning the specific number of Program Cost Accounts (PCA) and current policies and processes used to create and manage PCAs. A comprehensive list of PCAs with allotment and expenditure

information used in FY 2005-06 will be compared to a list of PCAs being used in FY 2006-07 to identify unnecessary PCA use. The resultant comparison will be

forwarded to programs and organizations for their review and revision. Criteria will be established to eliminate unnecessary PCAs. The task completion due date is November 26, 2006.

Department actions taken to address Phase 1 review recommendations not specifically covered in the LAO's Supplemental Report but are a part of the Phase 2 review, include:

23. Improve Accounts Receivable collections.

The Department Accounting Service Branch (ASB) has prepared aged Accounts Receivable (AR) status reports. The Department Accounting Branch Manager indicated that ASB lacks sufficient staff to pursue AR collections on an "on going" basis but has collected \$200,000. To add collections capability, the Department is reviewing options to implement a Department Cost Recovery Unit within ASB.

CPS Planned Action & Evaluation

During October, ASB prepared and furnished CPS with an aged status report that shows outstanding AR of \$17.6 million as of May 31, 2006. Approximately 72% of the total outstanding amount, or \$12.6 million, ranges from one to 17 years old. The Department expects to liquidate \$3.5 million of the delinquent AR within FY 2006-07. Attachment B describes our review of the situation and recommends that ASB start immediate aggressive collection efforts on the highest potential AR accounts.

CPS will review the current status reports for up-to-date AR results and ascertain whether all significant receivables are being reported and followed-up for collection purposes.

24. Improve collections of federal reimbursements.

Department Accounting management has developed procedures to support federal reimbursement that were issued as Directors Bulletin 2006/03. We also understand that improved procedures for federal draw-downs have been developed.

CPS Planned Action & Evaluation

Refer to Item #4 for a description of the new procedures. CPS will review and evaluate the Department federal drawdown and reimbursement procedures.

25. Improve systems for collecting and remitting federal reimbursement receipts.

Department issued the Directors Bulletin 2006/03.

CPS Planned Action & Evaluation

In October, ASB indicated that desk procedures were developed to collect reimbursements for Federal Aid project costs through the Department of Health and Human Services Smartlink electronic funds transfer system and the Financial

Assistance Disbursement System administered by the National Oceanic & Atmospheric Administration (NOAA) Financial Division.

CPS will evaluate the new procedures to determine how they facilitate the federal reimbursement process, including verifying the procedure issuance date, determining staff access to the procedures, and sampling current transactions for compliance with the procedures.

26. Perform timely fund reconciliations.

Department Accounting management reports that approximately 60 funds, except the General Fund, have been reconciled timely as of year-end.

CPS Planned Action & Evaluation

In October, ASB furnished CPS with a listing that shows all funds reconciled to the State Controller's records as of September 8, 2006. CPS will review the reconciliations in the year-end report and determine whether all reconciliations have been performed and will also determine if the reconciliation satisfies the questions raised by previous auditor reports.

27. Repay the \$1.5 million Loan to the Native Species Conservation and Enhancement Account.

Department Administration indicates the loan was approved for repayment in July 2006. However, the department has since determined the actual interest due requires an additional \$265,000 payment. The department has recently received approval from the Department of Finance (DOF) and the legislature to accommodate the remaining payment from reserves within the FGPF.

CPS Planned Action & Evaluation

No change in October. CPS will examine year-end records and current year transactions to document when the repayment is in fact made, and will review the Department/DOF communications, when available, to confirm the accuracy of the remaining amount due.

28. Improve remittance to the State Treasurer and eliminate lost interest earnings.

Department Accounting management indicated that all funds are deposited immediately into the bank. ASB has eliminated all lags in remittances relative to uncleared collections.

CPS Planned Action & Evaluation

No change in October. CPS will review the current remittance process.

29. Assess the appropriate design, structure and staffing levels for the Accounting Services Branch.

CPS is addressing this matter in Phase 2.

CPS Planned Action & Evaluation

In October, CPS met with ASB management and staff to review the organizational structure, vacancies, facility layout, backlogs in travel expense claims, vendor/phone/CalCard invoices, timesheet data entry, and funds reconciliation. CPS also provided ASB management with information on tax-exempt leasing of equipment and vehicles, and a referral to another agency that has successfully implemented Callaters, an online process used by state agencies that should help reduce the travel expense claim backlog.

30. The Internal Audits Branch should report to the Chief Deputy Director.

As of August 2006, the Internal Auditor reports to the Chief Deputy Director.

CPS Planned Action & Evaluation

The recommendation was implemented in August 2006 with no further action required.

31. Report on the repayment status of \$2.2 million of borrowed OSPR funds.

Department Accounting management will provide information on the current status of these borrowed funds.

CPS Planned Action & Evaluation

No change in October. CPS will evaluate the fund status report and discuss with OSPR representatives.

Department actions taken to address recommendations not covered in the Phase 1 review but included in the LAO's Supplemental Report task (3) *Department Program Budget Structure Development*, (Phase 2) include:

32. Review department project codes (#3a).

The Department uses more than 200 CalSTARS codes to capture and aggregate Federal grant (0890) and state reimbursement (0995) project codes. In FY 2005-06, the Department had excess Federal authority due to the lack of matching funds and also had excess reimbursement authority. The objective is to review the assignment and usage of project codes and update or develop policies and procedures governing the correct use of project codes. The planned due date has been extended until November 29, 2006.

CPS Planned Action & Evaluation

In October, preliminary discussions were held concerning current policies and procedures. Project codes must be aligned with PCA codes. More in-depth discussions are required with the Grant Unit. CPS will follow-up to determine the best usage of project codes and ways to maximize authority.

33. Review program activities (#3b).

The Department has recently restructured program component activities to reduce the number from 800 to 137. Alternative proposals have been presented to

Regional Managers. The objective is to develop a new component listing that clearly captures the department's core business functions. The planned due date is November 5, 2006.

CPS Planned Action & Evaluation

In October, the Department developed and reviewed initial program component lists. A final component listing was adopted by Regional Managers on October 24th along with changes to the Department program element structure. Selected group members will work with the programs to develop new program component descriptions, component 711 designations, outputs and outcomes. CPS will follow-up to determine if the work is satisfactorily completed on time.

34. Review CalSTARS Indices and PCA codes (#3c).

The Department currently has six major programs, eleven major organizations, over 230 CalSTARS Indices and over 1,000 PCAs. The objectives are: 1) determine if Indices can be recoded to be more structurally consistent within the organization and better aligned with program resources, and 2) find ways to eliminate or consolidate unnecessary PCA codes. The planned due date is November 26, 2006.

CPS Planned Action & Evaluation

In October, CPS observed discussions concerning the use and number of PCAs but there have been no discussions concerning Indices. CPS will follow-up to determine if the work is satisfactorily completed on time.

35. Review Index/PCA budget allotments and program activities (#3d).

The Department has hundreds of Index/PCA budget allotments (resources) distributed to eleven major organizations. These resources are not electronically system-wise linked to the program activities they are budgeted to perform. There is a Department e-system called 'Budget Management System' (BMS) for the budget and allocations, CalSTARS for Accounting, and a parallel system for accounting of program activities through labor distribution. The objective is to develop a new coding structure to allow the establishment of statewide Index/PCA budget allotments for all program components. The planned due date is December 31, 2006.

CPS Planned Action & Evaluation

In October, there were no discussions held on this item. The completion of this item is contingent upon the development of a new list of program components and the establishment of PCA criteria. CPS will follow-up to determine if the work is satisfactorily completed on time.

36. Review Index and program alignment (#3e).

The Department has eleven major organizations that perform work for specific programs. Resources are distributed to each organization by Index/PCA. A division oversees each of the six major budgeted programs (20, 25, 30, 40, 50 and 70). The objective is to ensure that program funds are fully aligned with the

organizational staff that perform the work. The planned due date is December 17, 2006.

CPS Planned Action & Evaluation

In October, there were no discussions held on this item. The completion of this item is contingent upon the development of a new list of program components and possible program elements changes. CPS will follow-up to determine if the work is satisfactorily completed on time.

Potential Problems and Anticipated Difficulties

The FSR team will be circulating documents for review by the various programs and organizations which may result in project delays. Department management needs to support the review process and encourage timely document review department-wide.

Contract Cost/Schedule Status

The approved hours are 1,000 and the Phase 2 budget is \$150,000, respectively. The following table reflects the progress to date:

Category	Sep 2006	Oct 2006	Nov 2006	Dec 2006	Total
Contract Hours Expended	28	163.25			191.25
% of Total Hours Expended	2.8%	16.3%			19.1%
Total Fees Expended	\$4,620.00	\$22,261.00			\$26,881.00
Travel Expended	\$0	\$0			\$0
Total Contract Expenditures	\$4,620.00	\$22,261.00			\$26,881.00
% of Contract Expended	3.1%	14.8%			17.9%
Est. Expenditures to Completion	\$145,380.00	\$123,119.00			

Bold – actuals; Italics – estimates

DEPARTMENT OF FISH AND GAME -- FISCAL SYSTEM REVIEW

Summary of Department Revenue Projection Methodologies for Selected Dedicated Funds and Non-Dedicated Revenues

Introduction

CPS was asked to assist Department staff in reviewing their revenue estimating methodology for the Fish and Preservation Fund to determine if improvements could be made. This Fund contains 25 dedicated accounts and non-dedicated revenues. Separate revenue projections are done for each of the dedicated funds and for the non-dedicated revenues. The following summarizes the scope and methodology of the funds and revenues reviewed and our findings and recommendations. Detailed reports have been provided to the Department for both account/revenue types.

Scope and Methodology

Department staff provided the revenue estimating methodologies used for six of their dedicated funds: Duck Stamp, Bighorn Sheep, Herring Tax, Steelhead Trout, Wild Pig, and Abalone Restoration. CPS reviewed the methodologies provided and examined alternative approaches. In addition, CPS analyzed the non-dedicated revenues in the Fish and Game Preservation Fund to assess the best approach to forecasting these revenues. Statistical relationships between the base for these revenue sources and economic, demographic, precipitation, fee levels, and the Department warden data were explored using regression analysis. Alternate approaches to trend analysis were also considered.

Dedicated Fund Findings and Recommendations

Department staff currently use trend analysis for projecting the number of items that will be sold for the duck stamp, steelhead report card, abalone stamp, and wild pig tag. These estimates are then adjusted for any changes in law and regulations. The revenue forecast is then calculated by multiplying the expected number of sales by the fees in the upcoming year. CPS found that:

- Purchases of duck stamps have declined 62% since 1971 - at an average annual rate of 2.8 %. Department staff currently use the 10-year trend to project sales, which in our opinion, provides the best approach.
- The number of steelhead report cards has also fallen over the long term. Since 1993, the decline averaged 4.1 percent per year. The number of steelhead report cards showed a statistically-significant link to the California unemployment rate. It is unclear whether, in fact, this makes sense and more people fish for steelhead in bad economic times, or whether this is a spurious correlation. The Department's current method of using trend analysis for the most recent few years appears to be the most reasonable approach.

- Except for the three years from 1999 to 2001, abalone stamp sales have been in the range of 35,000 to 37,000 annually on a license year basis. Given this stability in the number of stamps sold, trending from the most recent year's values and applying the appropriate fee for that year should provide a reasonable estimate.
- The number of wild pig tags has been growing at an average annual rate of about 4.3 over the last 10 years. Even on a per capita basis, these tags have increased over time. Wild pig tag growth was correlated with population, personal income, and general economic growth. This probably reflects the gradual upward trend in all of these variables over time, because a simple time trend produced almost as good a fit. Therefore, using the trend in the number of tags is preferable because it eliminates the need to forecast other variables in order to project tags.

Revenues to the Bighorn Sheep Dedicated Account are primarily derived from special fund raising tags. To project fund revenues, the number of fund raising tags issued is multiplied by the revenue that was raised by the auction of that number of tags in recent years. According to Department staff, the number of bighorn sheep tags is known for the upcoming year when revenue projections must be prepared. Only the amount raised by the tags must be estimated. Using trends in the amount raised by these tags should result in a reasonable forecast.

Projections for the Herring Dedicated Account are based upon the herring population, which is estimated based on field surveys. Revenues come primarily from landing taxes. The number of herring stamps sold was stable initially, but has been declining at an average annual rate of 5.0 percent per license year for the last three years. The current revenue projections assume that the entire quota will be caught. To assess the appropriateness of this assumption, perhaps the prior year's landings can be compared with the quota for that year. If this could be done for several years, perhaps a trend in landings could be determined which might improve the revenue forecast. Alternatively, if this cannot be done, looking for trends in the total landing revenue might be useful.

Recommendations

Trend analysis is a good choice for forecasting when explanatory variables are not available, such as the case with the dedicated funds. There are different ways of determining trends, however the annual average percent change in the fee base (the number of stamps/tags/permits) is a reasonable approach. This can then be multiplied by the appropriate fee for each year and the result allocated to fiscal years based on historical patterns. Using license year data for the base forecast is preferable to fiscal year data because fee changes occur by license year.

The relatively small number of fee payers in each of these programs makes revenue projections inherently challenging. Also, factors affecting public preferences for these activities, fluctuations in the hunted/fished population, weather conditions, changes in government regulations, and other variables affecting these revenues are difficult or impossible to anticipate. Therefore, the difference between the forecast and actual revenues can be expected to be relatively large. Conservative projections and a reserve may be necessary to help protect against budget shortfalls in these accounts.

Non-Dedicated Revenues Findings and Recommendations

Two-thirds of the non-dedicated revenues to the Fish and Game Preservation Fund come from the sale of fishing licenses. Fishing and hunting license revenues together comprise 87 percent of the non-dedicated revenues. The total number of licenses purchased has declined over time, despite population increases. The following describes our findings and recommendations concerning sport fishing and hunting.

The types of sport fishing licenses issued have varied over time; however the total number of licenses purchased has remained roughly in the 2 to 2-1/2 million range annually. Since the mid-1980's, the number of licenses have been declining at about 0.8 percent annually. Due to fee increases, sport fishing license revenues have grown by about 6 percent per year over the long term.

The 2001 National Survey of Fishing, Hunting, and Wildlife-Associated Recreation issued by the U.S. Fish and Wildlife Service (USFWS) found the number of fishing participants nationally to also be declining since the mid-1980's. This probably indicates that nation-wide, rather than state-specific, factors are driving California's trends.

The Outdoor Industry Foundation conducted a study of various types of outdoor activities in 2005 and found both the number of participants and the number of fishing outings had declined. The study indicated other activities are capturing share from outdoor activities in general. In general, home-centered, sedentary activities were found to be gaining market share, while outdoor activities were losing share.

The number and types of sport fishing licenses have changed over time. The largest number of licenses has always been annual resident licenses but the number of these licenses sold each year has been declining. The number of nonresident licenses has grown, but they represent a very small portion of the total number of licenses sold.

CPS found that the license fee (adjusted for inflation) was statistically significant in explaining the number of resident fishing licenses purchased. Real increases in the fee had a negative effect on the number of sales. Given the relatively low level of fees compared with alternative leisure activities, this result is somewhat surprising.

Purchases of one- and two-day licenses appeared to be related to the real cost of the annual license. As the fee for the annual license went up, more people seemed to shift to short-term licenses. Nonresident licenses did not show a similar sensitivity to price.

Since 1970, the number of hunting licenses purchased annually has been declining by 2.6 percent per year. Over the last decade the decline has slowed to a little over 1 percent per year. Due to regular fee increases, revenues have grown over this period.

The number of hunters in the U.S. has also been in decline since the mid-1970's, according to the 2001 National Survey of Fishing, Hunting, and Wildlife-Associated Recreation issued by the U.S. Fish and Wildlife Service (USFWS).

Reductions in big game hunting quotas over time are probably one reason for the decline, although we did not have the data to test this statistically. The 2006 Outdoor Industry Foundation study cited earlier indicated that there was a decline in commitment-heavy activities in favor of activities that could be "done in a day." This could be a factor in the decline seen above. The USFWS survey also found that

hunters who didn't hunt as much as the prior year most commonly cited a lack of time or family/work obligations as the reason.

Department staff is currently working on an entirely new approach to issuing licenses, which they will begin putting into place in 2007. Instead of issuing a paper license with long lag time and no consumer data collection, the Department will implement a new point-of-sale Automated License Data System (ALDS) through retailers. Retailers will issue licenses and record sales on a real-time basis. All types of licenses/stamps/tags will be available for sales by all agents with terminal access. Consumer information will be entered and will be available to the Department for the first time. Consumers will also be able to purchase licenses over the Internet or telephone. These changes are expected to reduce costs, workload, collection/deposit/posting time, and increase accessibility, availability and timely allocation of funds to the proper account. Enforcement and marketing information will also be enhanced.

Although the ALDS represents a major improvement in how the Department does business, it will complicate revenue projections for the next few years. Revenue projections rely on historical patterns which will all be changed when the new system becomes operational. However, the additional detail that will be available for forecasting once the system is in place for a few years should increase the accuracy of the forecasts. Department staff will be able to track sales by type as they occur instead of with the significant lags that now occur. They will be able to determine when sales are made to new consumers or whether sales to regular purchasers are delayed/accelerated. So they will be better able to assess how collections are tracking with expectations and make adjustments as necessary.

Cash flow patterns will be significantly altered, so the projections for the next few years will need to rely heavily on license year data. Translating license year data to fiscal years will involve a great deal of professional judgment by the Department staff because historical patterns will no longer hold.

Recommendations

Quantitative variables that would adequately explain the decline in fishing and hunting could not be identified within the span of this analysis. Some factors that would seem to be important -such as the weather - didn't show statistically significant results. Also, an inverse relationship was found with other economic and demographic variables which appeared questionable. Only the real cost of resident sport fishing licenses showed consistent explanatory power. However, that relationship alone is not strong enough to use for forecasting.

Other factors that may also be important in explaining fishing and hunting trends over time include the average fishing/hunting trip length and cost, the level of resource populations, changes in public attitudes, available leisure time of the population, and recreation substitutes. However, time series data for important variables that may be driving fishing and hunting trends are not readily available. Therefore, trend analysis appears to be the best option for forecasting non-dedicated revenues.

DEPARTMENT OF FISH AND GAME FISCAL SYSTEM REVIEW

-- ASB Accounts Receivable Summary

A review of the Department's aged Accounts Receivable (AR) going back 17 years reveals an urgent need for an aggressive collection effort. CPS performed a high level review of aged AR for 19 Department funds ranging from 1989 through May 31, 2006. Of the total outstanding AR of \$17,646,103, approximately 72%, or \$12,678,626, ranges from one to 17 years old and offers a low probability of collection. The AR with the highest potential for collection totals almost \$5 million and ranges from 30 to over 120 days old.

The following table shows the AR aging in days for all 19 funds.

30	31-60	61-90	91-120	Over 120	Over 365	Total
2,068,477	1,171,646	459,851	174,978	1,092,525	12,678,626	17,646,103
11.7%	6.6%	2.6%	1.0%	6.2%	71.9%	100.0%

A 1988 study performed by the Commercial Law League of America indicates that AR collectibility falls off sharply after an account is older than 30 days. Approximately 94% of accounts are collectible within one month past due. On accounts two months past due, collectibility drops to 85%. At three months, collectibility drops to 74% and at six months drops to 58%. Accounts that are nine months past due have a 43% chance of collection. After one year, chance of recovery drops to 27%. After two years of delinquency, chance of collection drops to 14% and less thereafter.

In our opinion, active current year accounts from state and federal sources offer the best chance for collection. Collection probability from private and mixed sources is slightly lower, but should not be abandoned. Older state and federal accounts offer some chance for recovery but the collectibility of very old private accounts, except for dishonored checks, is low and not worth the resource investment. Based on these criteria, it appears the following ten accounts (in descending order of priority) valued at more than \$8 million offer the greatest potential for collection. In-depth analysis may indicate a change in priority order.

Fund Number and Name	Account No.	Source	Total
0001 – General Fund	1400	State	\$ 3,038,245
0998 – Office Revolving Fund	1400	State	1,156,560
0890 – Federal Trust Fund	1500	Federal	1,799,313
0001 – General Fund	1312	Private	399,593
0200 – Fish & Game Preservation	1313	Private	369,703
0001 – General Fund	1319	Mixed	171,838
0207 – Fish & Wildlife Pollution	1313	Private	162,068
0321 – Oil Spill Response Trust	1313	Private	646,060
0001 – General Fund	1311	Private	31,159
0200 – Fish & Game Preservation*	1315	Mixed	313,736
Totals			\$8,088,275

*Dishonored checks can be collected with treble damages and may be collectible using electronic fund transfers.

We understand the Department is reviewing options to establish a new Cost Recovery Unit or function that will take time to put in place. Instead of waiting, CPS recommends that in-house or outsourced collection efforts begin immediately on the highest potential AR accounts and that collection efforts on all future accounts start no later than 30 days delinquent.